

VZCZCXRO0683
PP RUEHAG RUEHDF RUEHIK RUEHLZ RUEHROV RUEHSR
DE RUEHLO #0038 0061712
ZNR UUUUU ZZH
P 061712Z JAN 09
FM AMEMBASSY LONDON
TO RUEHC/SECSTATE WASHDC PRIORITY 0844
INFO RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY
RUCPDOG/DEPT OF COMMERCE WASHDC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RUEHBL/AMCONSUL BELFAST PRIORITY 1196
RUEHED/AMCONSUL EDINBURGH PRIORITY 1046

UNCLAS LONDON 000038

SENSITIVE
SIPDIS

E.O. 12958: N/A
TAGS: [ECON](#) [EFIN](#) [ETRD](#) [EINV](#) [UK](#)
SUBJECT: CONSERVATIVES ANNOUCE THEIR PLAN FOR RECOVERY

¶1. (SBU) Summary: Conservative Party leader David Cameron unveiled his economic plan to deal with the debt crisis in a speech delivered January 5. Cameron's speech was sharply critical of Gordon Brown's economic stimulus policies and argued the debt crisis was a result of Labour's mishandling of the British economy. Cameron proposed eliminating income tax on savings for those on the basic rate of tax and raising the tax allowance for pensioners. Reactions to the proposals were mixed. While some commentators were critical of the job losses and reduced growth likely to accompany cuts in public spending, others praised the proposals for highlighting the role savings can have in helping the UK out of the economic downturn. End summary.

"A grim life of debt and despair"

¶2. (U) David Cameron placed the blame for the debt crisis squarely on the shoulders of Gordon Brown and the Labour Party, referring throughout the speech to "Labour's Debt Crisis": "We're in this mess because of too much debt--too much government debt; too much corporate debt; too much personal debt. This is Labour's Debt Crisis." Cameron argued that Gordon Brown's economic stimulus package had failed and that Labour has "run out of money", criticized Brown's economic package and bank recapitalization for failing to restore lending, and denounced Brown's 2.5 percent Value Added Tax (VAT) reduction calling it "a criminal waste of public money." He said Brown's recession policy was "both economically stupid and morally indefensible" and that the British people had come "to the end of the road under Labour."

Restricting spending; Supporting savers

¶3. (U) Cameron argued that the only way out of the debt crisis would be through saving, saying Conservatives would transform Britain from an "economy built on debt to an economy built on savings." He called for a broad package of social, cultural, and environmental change and spoke of his vision of a less materialistic country, "a contributor society not a consumer society." To that end, he proposed eliminating income tax on savings for everyone on the basic rate of tax and raising the tax allowance for pensioners by GBP 2,000 (\$3,500). These cuts come at a cost of GBP 4.1 billion (\$6.2bn) which he said would be funded by restricting public spending in 2009 to a one percent increase in real terms (down from an average of 4 percent), while leaving spending levels for schools, defense, health care and international development untouched. He noted that while the Labour Party planned to cut spending from 2010 onwards, leaving 2009 spending untouched was wrong. Cameron urged the Labour Party to adopt these policies in this year's budget (likely to be announced in March).

Reactions

¶5. (U) Reactions to Cameron's proposals were mixed. His plan risks reducing growth by cutting the amount of money spent in the economy,

according to the Institute for Fiscal Studies, an independent economic think tank. Carl Emmerson, the think tank's deputy director, said the plans would inflict "a sharp slowdown of spending growth" by government departments, while the beneficiaries of the plans may choose to save their extra cash rather than spend it. Nick Clegg, leader of the Liberal Democrats, accused Cameron of offering a "fake giveaway." He said cutting savings tax will mean someone saving GBP 100 will only receive an extra 40 pence a year. Cameron's proposals would increase unemployment as a result of the cuts in public spending, according to the Trades Union Congress (TUC). Brendan Barber, TUC General Secretary, said the proposals would benefit big banks, the super-rich and tax avoiders. Conversely, the Association of British Insurers praised the proposals and welcomed the acknowledgement of the importance of savings in helping the UK climb out of the downturn.

¶6. (SBU) Comment: Cameron's speech created a clear division between Conservative and government policy on how to steer the UK through the recession. (Note: Media commentators had previously criticized Cameron for not establishing a distinct Conservative economic policy for handling the credit crisis. End note.) Conservative emphasis on saving contrasts sharply with HMG's capital investment program. However, the Prime Minister hinted on January 4 that Ministers are looking at measures to help savers who have suffered from interest rate cuts. Media commentators note that this is likely to become a political battle to woo savers.

TUTTTLE